

## Internal Revenue Service

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Washington, DC 20224

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CC:CORP:BR:2

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Date:

March 25, 2015

### Legend

Parent =

Distributing 2 =

Distributing 1 =

Controlled =

Disregarded Entity =

Partnership =

Partner A =

Partner B =

Business 1 =

Segment A =

Year 1 =

Date 1 =

Date 2 =

p =

q =

r =

s =

Dear :

This letter responds to your September 26, 2014 request, submitted by your authorized representatives, for a ruling under section 355(b). The information provided in that letter and in later correspondence is summarized below.

The ruling contained in this letter is based upon information and representations submitted by the taxpayer and accompanied by penalties of perjury statements executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for ruling, it is subject to verification on examination.

This letter is issued pursuant to section 6.03 of Rev. Proc. 2014-1, 2014-1 I.R.B. 15, regarding one or more significant issues under sections 332, 351, 355, 368, or 1036. The ruling contained in this letter only addresses one or more discrete legal issues involved in the transaction. This Office expresses no opinion as to the overall tax consequences of the transactions described in this letter or as to any issue not specifically addressed by the ruling below.

FACTS

Parent is a privately held domestic corporation and is the common parent of an affiliated group of corporations that file a consolidated federal income tax return (the “Parent Group”). Parent owns all of the membership interests in Disregarded Entity, a limited liability company that is disregarded as separate from Parent for federal income tax purposes. Disregarded Entity owns all of the stock of Distributing 2, which owns all of the stock of Distributing 1. Distributing 1 and Distributing 2 are members of the Parent Group.

Distributing 1 owns a  $p\%$  economic interest and a  $q\%$  voting interest (subject to special majority provisions relating to certain significant actions) in Partnership, a limited liability company that is treated as a partnership for federal income tax purposes. Distributing 1’s economic and voting interest in Partnership is, in each case, at least a one-third interest. Distributing 1 also owns several subsidiaries (the “Distributing 1 Subsidiaries”), all of which are members of the Parent Group. Distributing 1, directly and through the Distributing 1 Subsidiaries, has been engaged in the active conduct of Business 1 for more than five years.

On Date 1, Partner A and Partner B (collectively, the “Founders”) formed Partnership and contributed to it, assets used in the conduct of Segment A (a segment of Business 1) since Year 1 in exchange for all of the membership interests (then comprised of Classes A-1, A-2, and B) in Partnership. On Date 2, the Founders sold all of their Class B membership interests in Partnership to Distributing 1 in a taxable transaction. At the time, the Class B membership interests represented an economic interest in Partnership of  $r\%$  and a voting interest in Partnership of  $s\%$  (in each case, at least a one-third interest).

The management of Partnership is vested exclusively in Partnership’s Board of Managers (the “Board”). The Founders have been delegated certain responsibilities with respect to the conduct of Segment A, subject to the general oversight of the Board. Notwithstanding such delegation, the Board generally has the authority to make management decisions and control the day-to-day conduct of Segment A.

In order to enable the long-term growth and expansion of Segment A as an independent business, the Parent Group intends to raise capital through an initial public offering of stock of a newly-formed corporation that will be directly engaged in Segment A. To facilitate this initial public offering, the following transactions have been proposed (collectively, the “Proposed Transaction”).

- (i) Partnership will acquire a portion of the Founders’ interests in Partnership, after which Partnership will either make an election under § 301.7701-3 to be classified as a corporation (Controlled) for federal tax purposes or a new corporation (Controlled) will be formed, into which Distributing 1 and the Founders will contribute all of their Partnership interests.

- (ii) Distributing 1 will distribute all of its stock of Controlled to Distributing 2;
- (iii) Distributing 2 will distribute all of its stock of Controlled to Disregarded Entity;
- (iv) Disregarded Entity will distribute all of its stock of Controlled to Parent; and
- (v) Parent will distribute all of its stock of Controlled to its shareholders.

It is anticipated that the initial public offering of Controlled stock will occur within one year of these distributions.

## REPRESENTATIONS

The Parent Group makes the following representations:

- (a) Distributing 1 owns, and has owned since its acquisition of Partnership on Date 2, a “significant interest” (within the meaning of Rev. Rul. 2007-42, 2007-28 I.R.B. 44) in Partnership.
- (b) Partnership has been engaged in the active conduct of Segment A throughout the period following Distributing 1’s acquisition of its interest in Partnership on Date 2.

## RULING

Based upon the facts and information submitted and the representations made, we rule that Distributing 1’s acquisition of Segment A through its acquisition of the interest in Partnership constitutes an expansion of Distributing 1’s Business 1 (within the meaning of Treas. Reg. §1.355-3(b)(3)(ii)) and does not constitute the acquisition of a new or different business. Treas. Reg. §1.355-3(b)(3)(ii) and Rev. Rul. 2007-42, 2007-28 I.R.B. 44, Rev. Rul. 2003-38, 2003-17 I.R.B. 811, and Rev. Rul. 2003-18, 2003-7 I.R.B. 467.

## CAVEATS

Except as expressly provided herein, no opinion is expressed or implied concerning the tax treatment of the Proposed Transaction under any provision of the Code and regulations or the tax treatment of any condition existing at the time of, or effects resulting from the Proposed Transaction that is not specifically covered by the above rulings.

## PROCEDURAL STATEMENTS

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representatives.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

Sincerely,

Frances L. Kelly  
Senior Counsel  
Office of Associate Chief Counsel  
(Corporate)

cc: